

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, October 19, 2007  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:36 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Michael Townsend, Chair  
Dr. Keith Meredith, Vice Chair  
Mr. David Byers  
Mr. Tom Connelly  
Mr. Chris Harris  
Mr. Jim McLaughlin  
Mr. Steven Zeman

Absent: Mr. Jaime Gutierrez  
Mr. Lawrence Trachtenberg

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Steve Zeman moved to approve Refunds, Death Benefits, Retirements and System Transfers for the month of August, 2007;

*And*

Approve the minutes of the September 28, 2007, Regular Session of the ASRS Board;

*And*

Approve the application and agreement with Edu-Prize Schools.

Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

**3. Presentation, Discussion and Appropriate Action Regarding the Supplemental Retirement Savings Program (SRSP) First Amendment**

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Susanne Dobel, Manager, External Affairs, addressed the Board regarding the Supplemental Retirement Savings Program (SRSP) First Amendment. Ms. Susanne Dobel stated that the Board approved the Fourth Amendment and Restatement of the SRSP at the August 17, 2007, meeting. During finalization stages, staff noticed a

small conflict in the Employer Adoption Agreement that did not properly reference the new graded contribution schedules approved in August. This First Amendment makes the changes necessary to correct that oversight.

**Motion:** Mr. Chris Harris moved to adopt the First Amendment to the Fourth Amended and Restated ASRS Supplemental Retirement Savings Plan;

*And*

Moved to authorize and direct the Director of the ASRS to execute such First Amendment for and on behalf of the Board.

Mr. Dave Byers seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding 2008 ASRS Legislation**

Mr. Pat Klein and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2008 ASRS Legislation. Ms. Sorensen stated that throughout the summer, the External Affairs (EA) and other ASRS staff met with numerous external stakeholders; such as employers, labor unions, employee advocacy groups, and retiree advocacy groups; and received numerous suggestions. In addition to holding these summer meetings, EA received ideas from the ASRS staff and Trustees.

Ms. Sorensen stated that the summer discussions centered around ensuring the longevity of the Trust. The various proposals will help mitigate the upward pressure on the contribution rate by stopping "leakage" from the Fund by making modest plan modifications while preserving the integrity of the defined benefit plan structure.

Ms. Sorensen stated that the following area will be discussed: Defined Benefit Plan Design, Long Term Disability Plan, Defined Benefit Plan and Long Term Disability Plan Unclaimed Property Exemption, Transfers out of the ASRS (generally) and Payroll Deduction Agreements (specifically), Sudan Divestment and Federal Conforming Changes.

#### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Global Tactical Asset Allocation (GTAA) Program**

Mr. Gary Dokes, Chief Investment Officer, Mr. Dan Kapanak, Manager of Investment Strategies, and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding the ASRS Global Tactical Asset Allocation (GTAA) Program. Mr. Dokes and Mr. Kapanak addressed the evolution of the ASRS Tactical Asset Allocation (TTA) Program, the ASRS Perspective of GTAA, past and present program performance, current and future program activities and provided a snapshot of the ASRS GTAA program.

#### **6. Presentation, Discussion and Appropriate Action Regarding the ASRS Real Estate Program**

Mr. Gary Dokes, Mr. Eric Rovelli, Real Estate Portfolio Manager, Ms. Micolyn Yalonis, Principal, The Townsend Group, and Ms. Linda Assante, Principal, The Townsend Group, addressed the Board regarding the ASRS Real Estate Program. Mr. Dokes and Mr. Rovelli provided information regarding Real Estate Program activities, portfolio performance, property type and geographic diversification,

and ASRS properties. A snapshot of the Real Estate Program was provided as well as a Real Estate Market update. As of September 30, 2007, the current funded market value is \$501 million, or 1.8%. The total committed to real estate exceeds \$1 billion or 4% of the ASRS' total fund market value.

## **7. Presentation, Discussion and Appropriate Action Regarding the System Asset Allocation**

Mr. Gary Dokes and Mr. Terry Dennison addressed the Board regarding the System Asset Allocation. Mr. Dokes stated that at the August 17, 2007, Board meeting, the Director, Paul Matson, made a presentation which addressed the investment strategy and liability structure of the System and recommended modifications to the System asset allocation policy. As a result, the Board approved the asset allocation policy which allocated 5% of the System investments to a short-to-intermediate term fixed income strategy. In addition, the precise product would be determined by ASRS staff and presented to the Board for approval.

Mr. Dokes explained that given the directive to determine the precise product, the Investment Management Division and Mercer researched the characteristics and risk/return profiles of various short and intermediate fixed income indices and the universe of fixed income managers who offer such institutional fixed income products. The selection of the Lehman Brothers Intermediate Aggregate Index was the result of the analyses of various fixed income indices relative attributes which included duration, volatility, sector allocation and index constituents.

Mr. Dokes stated that an active fixed income manager search commenced with a perusal of the universe of managers who manage intermediate fixed income mandates and whose organizations, investment process and historical risk/return profiles are considered superior. As a result, JP Morgan (JPM) Asset Management was selected to manage the System's intermediate fixed income allocation. JPM's organization and investment process is sound, their portfolio risk management systems are excellent and their historical performance has been favorable.

**Motion:** Mr. Tom Connelly moved to approve JP Morgan Asset Management to manage an intermediate fixed income mandate of approximately \$26.5 million to be benchmarked to the Lehman Brothers Intermediate Aggregate Index.

Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

## **8. Presentation, Discussion and Appropriate Action Regarding the System Valuation**

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Ms. Bonnie Rockwood, Senior Consultant, Buck Consultants, addressed the Board regarding the System Valuation. Mr. Chittenden and Ms. Rockwood provided information regarding non-retired census data, retiree census data, liabilities and funded status.

Mr. Chittenden also gave a summary of the benefit increase situation and explained that this topic would be addressed during the November 16, 2007, Board meeting.

Mr. Michael Townsend commented that he would like staff to address the differences between a defined contribution plan and a defined benefit plan at the next meeting in order to get a clearer understanding of the System and its purpose in contrast to the ASRS defined benefit plan

**Motion:** Dr. Keith Meredith moved to accept the System Actuarial Valuation as presented.

Mr. Chris Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

## **9. Director's Report**

Mr. Paul Matson had no additional comments.

## **10. Possible Presentation Regarding Board Committee Updates**

Mr. Steve Zeman, Vice Chair, External Affairs Committee, stated that there would be an External Affairs Committee meeting on November 2, 2007.

Mr. Chris Harris, Investment Committee, stated that there would be upcoming action from the Investment Committee.

Mr. Dave Byers, Chair, Operations Committee, stated that there would be an Operations Committee meeting on October 25, 2007.

## **11. Board Requests for Agenda Items**

There were no requests for future agenda items.

## **12. Call to the Public**

Mr. William Peltier, Retiree, commented on the System Valuation.

## **13. The next ASRS Regular Board meeting is scheduled for Friday, November 16, 2007, at 8:00 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## **14. Adjournment of the ASRS Board**

Mr. Townsend adjourned the October 19, 2007 Board meeting at 10:35 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Anne Schrode, Secretary

Date

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Paul Matson, Director

Date